

—the signature of an authorized representative of your agency or organization.

Mail your letter of notification to:

Department of Retirement Systems
Enrollment Unit
P.O. Box 48380
Olympia, WA 98504-8380

DRS will send you a letter of confirmation and instructions for transmittal reporting.

Before implementation, as a courtesy to your members, you should provide them with a complete explanation of the effects of the change. DRS will enclose explanatory material with your letter of confirmation. If you need more information, DRS suggests you contact a tax advisor.

Your payroll department should be notified the taxes will be deferred on member retirement contributions; i.e., contributions will be deducted from gross pay before federal income taxes are calculated. You should ensure the information is properly reported to the Internal Revenue Service (IRS) and W-2 forms reflect the tax-deferred status.

Once you have started tax-deferred contributions, you may choose to end your tax-deferred status at any time. You may begin or end only once in a 12-month period, and you must provide at least 45 days notice to DRS prior to the change in status.

Nontaxed Contributions and Members

Deferring taxes on member contributions affects a member in several ways:

- A member's take home pay may be increased by the amount of tax that would have been withheld on his or her contributions.
- A member's gross pay is reduced for federal income tax purposes only. The gross pay for Social Security, retirement compensation reporting, retirement benefit calculations and all other purposes will be the full gross pay including the retirement contributions.

Example:

a. Gross pay/reportable compensation	\$2000.00
Multiplied by member rate	x .06
=Member Contribution	\$ 120.00
b. Gross pay/reportable compensation	\$2000.00
Minus member contribution	<u>B120.00</u>
= Member=s gross federal taxable income	\$1880.00
c. Gross pay for all purposes other than federal income tax	\$2000.00

- For each member, DRS maintains a record of contribution amounts on which taxes have been paid and amounts on which taxes have not been paid. This information is reported to the IRS when the member separates from service and withdraws contributions, or when the member retires.
- Since income tax is deferred, the contributions are subject to taxation in the year in which the member receives them from the retirement system. This affects members requesting a refund and retiring members differently. (See publications *Withdrawal of Retirement Contributions* and for TRS Plan 3, *Request for Payment of Defined Contribution Funds*.)

Contributions and Federal Income Tax

Retirement contributions are always calculated on the member's reportable compensation. The amount on which federal withholding tax is calculated will vary according to whether contributions are taxed or nontaxed. Prior to September 1, 1984, retirement contributions were subject to withholding tax (except for JRS and JRF that have always been nontaxed). After August 31, 1984, retirement contributions are not subject to withholding tax if the employer participates in tax-deferral (nontaxed), or "pick up" (see RCW 41.04.440-455) of employee contributions. For more information on tax-deferred contributions, see the section in this chapter, "Nontaxed Contributions and Members."

The following examples show how contributions, which are taxed or nontaxed, affect a member's federal taxable income.